Solution 3.1

a) Components of a complete set of financial statements

A complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;

and

- a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

b) Reasons for the introduction of a statement of comprehensive income

The main objective of the International Accounting Standards Board in revising IAS 1 was to aggregate information in the financial statements on the basis of shared characteristics. With this in mind, the Board considered it useful to separate changes in equity of an entity during a period arising from:

- transactions with owners in their capacity as owners
- other changes in equity.

Consequently, the Board decided that all owner changes in equity should be presented in the statement of changes in equity, separately from non-owner changes in equity

All non-owner changes in equity (ie comprehensive income) are required to be presented in one statement of comprehensive income. Components of comprehensive income are not permitted to be presented in the statement of changes in equity.

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Solution 3.2

Profit or loss is the total of income less expenses, excluding the components of other comprehensive income.

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

The IFRS list the components of other comprehensive income:
- changes in a revaluation surplus
- actuarial gains and losses on defined benefit plans
- gains or losses on translating foreign operations
- gains and losses on re-measuring available-for-sale financial assets
- gains and losses on hedging instruments in a cash flow hedge (the effective portion).

Total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income.

Solution 3.3

a) The presentation and classification of items should not change from one period to the next (e.g. accounting policies should be applied consistently).

b) It is important in order to achieve comparability from one year to the next.

c) A change in classification and presentation is acceptable when (IAS 1, paragraph 45):

- It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8;
- An IFRS requires a change in presentation.

IAS 1, paragraph 46, explains that a change in presentation will therefore only occur if:

- The revised presentation is likely to continue; and
- The revised presentation is reliable and more relevant.

Solution 3.4

The loss of C7 500 000 suffered by the company must be included in the determination of the profit or loss for the period.

The effects of an entity's various activities, transactions and other events differ in frequency, risk and predictability, and the disclosure of the elements of financial performance assists in the understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the statement of comprehensive income, and the descriptions used and the ordering of items are amended when it is necessary to explain the elements of financial performance. Factors considered include materiality and the nature and function of the components of income and expenses, (IAS 1, paragraph 85 and 86).

The nature and amount of items of income and expenses that are material shall be disclosed separately (IAS 1, paragraph 97).

An item is material if its omission or misstatement could influence the economic decisions of users (Framework, paragraph 30).

On the assumption that the nature or amount is considered material to the users of Full Stop Limited, the C7 500 000 used in cleaning the factory and replacing the plant and machinery would therefore need to be disclosed as an additional line item (either on the statement of comprehensive income or in the note describing profit before tax).

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Solution 3.5

(a) An entity shall classify an asset as current when:

- it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;or
- it holds the asset primarily for the purpose of trading;or
- it expects to realise the asset within twelve months after the reporting period; or
- the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

(b) An entity shall classify a liability as current when:

- it expects to settle the liability in its normal operating cycle, or
- it holds the liability primarily for the purpose of trading;
- the liability is due to be settled within twelve months after the reporting period; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period

.

An entity shall classify all other liabilities as non-current.

(c) The **operating cycle** of an entity is the time between the acquisition of assets entering into a process and their realisation in cash or an instrument that is readily convertible into cash (IAS 1, p68).

(d) Current asset (because inventory is sold within the normal course of an entity's operating cycle, even though this cycle is more than 12 months).

(e) Current liability (because the raising of this liability and its subsequent payment is part of the entity's operating cycle, even though this cycle is more than 12 months).

(f) When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides **useful information** by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period: a simple comparison of the two totals give a useful indication of the entity's relative liquidity (e.g. current ratio and acid-test ratio).

Solution 3.6

In terms of IAS 1 [para 69, (a) to (d)] an entity should classify its financial liabilities as current when;

a) it expects to settle the liability in its normal operating cycle;
b) it holds the liability primarily for the purpose of trading;
c) the liability is due to be settled within twelve months after the reporting period; or
d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

If an entity expects, and *has the discretion*, to refinance or roll over an obligation for at least twelve months after financial reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing is not at the discretion of the entity (e.g. no agreement to refinance), the obligation is still classified as current. Therefore, an agreement to refinance, or reschedule payments, on a long-term basis that is completed after the financial reporting date (and before the financial statements are authorised for issue), cannot result in the obligation being classified as non-current.

Even though Kyoto Limited's loan had an original term of 5 years and the agreement to refinance was signed before the financial statements were authorised for issue, the loan must still be classified as 'current' in the statement of financial position at 30 June 20X8 because it was not yet signed as at reporting date.

As the agreement was signed before the financial statements were authorised for issue, however, a note detailing the extended repayment period could be included in the financial statements, if considered relevant.

Note, that had the original loan agreement included an option to refinance the loan for a further twelve months or more, then the loan could remain disclosed as 'non-current' on condition that this option was at the discretion of Kyoto Limited.

Solution 3.7

GARMIN LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 20X1

	Ordinary share capital C	Preference share capital C	Share premium C	RE C	Total C
Balance 1/1/X1	120 000	100 000	50 000	X	270 000
Ordinary shares issued during the year	80 000		16 000		96 000
Preference shares issued during the year		50 000	25 000		75 000
Share issue expenses written off			(5 000)		(5 000)
Dividends				(X)	
Total comprehensive income				X	
Balance 31/12/X1	200 000	150 000	86 000	X	436 000

GARMIN LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X1

1. Share capital

Authorised	**C**
300 000 ordinary shares of C1 each	300 000
12% 100 000 preference shares of C1 each	100 000
10% 100 000 preference shares of C1 each	100 000
Issued	
200 000 ordinary shares of C1 (20X0: 120 000)	200 000
100 000 12% non-redeemable preference shares (20X0: 100 000)	100 000
50 000 10% non- redeemable preference shares (20X0: 0)	50 000

1 500 ordinary shares were issued to the managing director during the year at C1.20 per share.

Reconciliation of quantity of shares

	Ordinary	Preference
Balance 1/1/X1	120 000	100 000
Issued during year	80 000	50 000
Balance 31/12/X1	200 000	150 000

Solution 3.8

a)

ESKIMO LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 20X8

	20X8 C
ASSETS	
Non-current assets	310 000
Land and buildings	200 000
Equipment	60 000
Investments	50 000
Current assets	370 000
Inventories	120 000
Trade receivables	250 000
	680 000
EQUITY AND LIABILITIES	
Issued share capital and reserves	394 200
Non-current liabilities	
Bank loan	25 000
Current liabilities	260 800
Trade accounts payable	225 000
Current tax payable	12 800
Bank overdraft	8 000
Shareholders for dividends	15 000
	680 000

ESKIMO LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 20X8

	Share capital C	NDR C	Retained earnings C	Total C
Opening balance - 1/1/20X8 (1)	***200 000***	20 000	145 000	365 000
Shares issued during the year (20 000 X C2)	40 000			40 000
Dividends declared			(15 000)	(15 000)
Total comprehensive income			4 200	4 200
Closing balance - 31/12/20X8	240 000	20 000	134 200	394 200
Dividends per share 2007				XXX
Dividends per share 2008	(C15 000/ 120 000)			0.125

(1) Balancing: 240 000 – 40 000 = 200 000

Solution 3.8 continued …

ESKIMO LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X8

		Notes	20X8
			C
Revenue from sales			580 000
Cost of sales			(300 000)
Gross profit			280 000
Other income	(12 500 + 23 000)	2	35 500
Operating expenses	(250 000 + 25 000 + 25 000)		(300 000)
Finance costs			(9 500)
Profit before tax		3 & 4	6 000
Income tax expense			(1 800)
Profit for the period			4 200
Other comprehensive income			-
Total comprehensive income			4 200
Earnings per share	(C4 200/ 120 000)		0.035

ESKIMO LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X8

2 Other Income

Interest Income	12 500
Rent Income	23 000
	35 500

3. Analysis of expenses by function

Cost of sales	300 000
Cost of administration	25 000
Cost of distribution	25 000
Other costs	250 000
	600 000

4. Profit before tax

Profit before tax is stated after taking into account the following items:

- depreciation on equipment *(40 000 – 25 000)*	15 000

Solution 3.8 continued …

b)

If the dividends are proposed but not declared yet, there is no present obligation meaning that there is no liability and that the dividend may therefore not be recognised. The changes have been highlighted in bold.

ESKIMO LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 20X8

	20X8 C
ASSETS	
Same as (a) above	
	680 000
EQUITY AND LIABILITIES	
Issued capital and reserves	**409 200**
Non-current liabilities	25 000
Bank loan	25 000
Current liabilities	245 800
Trade accounts payable	**225 000**
Current tax payable	**12 800**
Bank overdraft	**8 000**
	680 000

ESKIMO LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 20X8

	Share capital C	NDR C	Retained earnings C	Total C
Opening balance - 1/1/20X8 (1)	***200 000***	20 000	145 000	365 000
Total comprehensive income			4 200	4 200
Shares issued during the year [20 000 X C2]	40 000			40 000
Closing balance - 31/12/20X8	240 000	20 000	**149 200**	**409 200**

(1) Balancing: 240 000 – 40 000 = 200 000

ESKIMO LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X8

	20X8 C
6. **Dividends paid and proposed**	
Dividends paid during the year	-
Dividends proposed during the year	15 000
	15 000

Solution 3.9

a) Journals

Journal entries	Debit	Credit
31 December 20X3		
Rent income received in advance	5 000	
Rent income		5 000
Telephone payable	3 000	
Telephone/ Other expense		3 000
Year-end accruals: opening balances reversed		
Rent income	6 000	
Rent income received in advance		6 000
Telephone prepaid	4 000	
Telephone/ Other expense		4 000
Year-end accruals: closing balances processed		
Dividends declared	30 000	
Shareholders for dividends		30 000
Final dividend declared on 31 December 20X3		
Cost of sales	48 000	
Depreciation		48 000
Correction: transfer of factory depreciation to cost of sales		
80 000 x 60% = 48 000		

Solution 3.9 continued …

b) Disclosure

TRAVEL BUG LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X3

		20X3
		C
Sales	*(given)*	480 000
Cost of sales	*(105 000 + 80 000 x 60%)*	(153 000)
Gross profit		327 000
Other income	*(170 000 + 240 000 + 50 000 + 5 000 - 6 000)*	459 000
Distribution expenses	*(100 000 - 3 000 - 4 000) x 30% + 80 000 x 30%*	(51 900)
Administrative expenses	*(100 000 - 3 000 - 4 000) x 20% + 80 000 x 10%*	(26 600)
Other expenses	*(100 000 - 3 000 - 4 000) x 50%*	(46 500)
Finance charges		(22 000)
		639 000
Income tax expense		136 590
Other comprehensive income		-
Total comprehensive income		502 410

Solution 3.10

a)

ABC LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 28 FEBRUARY20X9

	Notes	20X9 C
Sales		300 000
Cost of sales		(142 500)
Gross profit		157 500
Other income		300 000
Administration expenses		(117 313)
Distribution expenses		(119 375)
Other expenses		(148 812)
Finance costs		(9 500)
Profit before tax	3	62 500
Tax		(6 000)
Profit for the period		56 500
Other comprehensive income		-
Total comprehensive income		56 500

ABC LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 28 FEBRUARY 20X9

	Share capital C	NDR C	Retained earnings C	Total C
Opening balance - 1/3/20x8	36 500	2 500	100 250	139 250
Total comprehensive income			56 500	56 500
Transfers between reserves		50 000	(50 000)	-
Closing Balance - 28/2/20x9	36 500	52 500	106 750	195 750

ABC LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 28 FEBRUARY 20X9

	20X9 C
ASSETS	
Non-current assets	150 000
Land and buildings	80 000
Equipment	40 000
Vehicles	30 000
Current assets	282 500
Inventories	129 000
Trade receivables	150 000
Expenses prepaid	500
Cash and cash equivalents	3 000
	432 500

Solution 3.10 continued …

EQUITY AND LIABILITIES	
Issued share capital and reserves	195 750
Non-current liabilities	52 750
Bank loan	52 750
Current liabilities	184 000
Trade and other payables (64 000 + 2 000)	66 000
Current tax payable	118 000
	432 500

Authors' note:
Accounts prepaid at year-end of C500 have been shown separately from trade receivables, whereas accounts payable at year-end of C2 000 has been combined with trade payables to form trade and other payables. The reason is that accounts payable and trade payables are both 'payables' whereas amounts prepaid and trade receivables are technically two different things. However, the fourth and fifth Schedules of the Companies Ordinance 1984 require the separate disclosure of each of these four items.

ABC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X9

2. **Analysis of expenses by function**

Cost of sales	*(Given)*	142 500
Administration expenses	*(See working below)*	117 313
Distribution expenses	*(See working below)*	119 375
Other expenses	*(See working below)*	148 812
		528 000

3. **Profit before tax**

Profit before tax is stated after taking into account the following items:

- depreciation on office equipment [100 000 x 30%]	30 000
- depreciation on vehicles [100 000 x 70%]	70 000

Workings for note 3: expense allocation by function

Expense allocation	**Total**	**Administration**	**Distribution**	**Other**
Salaries & wages (250 000 - 500 - 2 000)	247 500	92 813	61 875	92 812
Depreciation - equipment (100 000 x 30%)	30 000	15 000		15 000
Depreciation - vehicles (100 000 x 70%)	70 000		56 000	14 000
Rates	10 000	2 500	1 500	6 000
Electricity & water (25 000 + 2 000 + 1 000)	28 000	7 000		21 000
		117 313	119 375	148 812

Solution 3.10 continued …

b)

Current ratio:
Current assets: current liabilities
C282 500: C184 000
1.535: 1

Comment:
The current ratio has dropped below the required minimum of 1.8:1 and therefore half of the long-term loan from AB Bank becomes repayable immediately. This means that half of the loan needs to be reclassified as current. The only financial statement that will change is the statement of financial position. Only that section of the statement of financial position that changes is shown. The line-items that change have been shown in bold in the C column.

ABC LIMITED
EXTRACT FROM STATEMENT OF FINANCIAL POSITION
AS AT 28 FEBRUARY 20X9

	20X9
EQUITY AND LIABILITIES	**C**
Issued capital and reserves	195 750
Non-current liabilities	26 375
Bank loan	**26 375**
Current liabilities	210 375
Short-term portion of bank loan	**26 375**
Trade accounts payable (64 000 + 2 000)	66 000
Current tax payable	118 000
	432 500

Solution 3.11

(a)

DURHAM LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 28 FEBRUARY 20X6

		Note	C
Revenue from sales			10 500 000
Cost of goods sold	(7 500 000 + 12 000)		(7 512 000)
Gross profit			2 988 000
Distribution costs			(520 000)
Administration expenses			(480 000)
Other expenses	(600 000 + 30 000)		(630 000)
Finance cost			(140 000)
Profit before tax		3	1 218 000
Income tax expense	(1 218 000 X 0.29) (comment 1)	4	(353 220)
Profit for the period			864 780
Other comprehensive income			
Revaluation of land and buildings			240 000
Total comprehensive income			1 104 780

Authors comment:
Comment 1: please note that to calculate the tax by simply multiplying the profit before tax by the standard tax rate is only possible if there are no permanent differences between the IFRSs and the tax legislation and there are no further taxes and no tax adjustments relating to prior years (such as under/ over provisions of current tax in a prior year) etc.

(b)

DURHAM LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 28 FEBRUARY 20X6

	Ordinary share capital C	Non-distributable reserve C	Retained earnings C	Total C
Balance at 01/03/X5	4 000 000	200 000	1 250 000	5 450 000
Total comprehensive income		240 000	864 780	1 104 780
Dividends			(100 000)	(100 000)
Issue of share capital	1 000 000			1 000 000
Balance at 28/02/X6	5 000 000	440 000	2 014 780	7 454 780

Solution 3.12 continued …

(c)

DURHAM LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 20X6

1. Corporate information
…xxx…

2. Significant accounting policies

2.1 Statement of compliance
These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Accounting convention
These financial statements have been prepared on the basis of historical cost convention except for certain assets that are measured at fair value as specified in their respective notes.

2.3 Property, plant and equipment
Land and buildings held for the use in the production or supply of goods or services, or for administration purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are performed with sufficient regularity that the carrying amounts do not differ materially from those that would be determined using fair values at the financial reporting date.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for in a prospective basis.

2.4 Inventory
Inventories are stated at the lower of cost and net realizable value. Costs are assigned to inventories on a first-in-first-out basis. Net realizable values represent the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. Profit before tax

The profit before tax has been computed after taking into account the following:		**20X6**
Auditors remuneration		**C**
Fee for audit		20 000
Other services		3 000
Depreciation on buildings	(112 500 + 85 000)	197 500
Depreciation on equipment	(60 000 + 40 000)	100 000
Employee benefits expense	(270 000 + 342 000)	612 000
Write down of inventory to net realisable value	(62 000 – 50 000)	12 000
Impairment of equipment		30 000

4. Dividends of C150 000 have been declared on 15 March 20X6 but have not

been recognised as a distribution. The DPS amounts to C0.03 per share.

Solution 3.12

a)

The amount of C350 000 paid to the auditors in respect of the consulting fees, the C1 800 000 relating to inventory being written off and the C300 000 loss sustained in respect of flood damage should be included in the determination of profit or loss for the period.

The effects of an entity's various activities, transactions and other events differ in frequency, risk and predictability, and the disclosure of the elements of financial performance assists in the understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the statement of comprehensive income, and the descriptions used and the ordering of items are amended when it is necessary to explain the elements of financial performance. Factors considered include materiality of the nature, function and or size of the elements, (IAS 1, paragraph 85 and 86).

The nature and amount of items of income and expenses that are material (i.e. where non-disclosure thereof may influence the decision making of the users) should be disclosed separately.

The inventory write off of C1 800 000 and the loss sustained in respect of the flood of C300 000 should therefore be disclosed as an additional line item on the statement of comprehensive income or in the note describing profit before tax.
Revaluation surplus is considered part of 'other comprehensive income' and is therefore not included in the determination of profit before taxation.

Solution 3.12 continued …

b)

SKY LIMITED
STATEMENT OF COMPREHENSIVE INCOME (DRAFT)
FOR THE YEAR ENDED 30 SEPTEMBER 20X9

		Note	C000s
Gross profit			6 700
Other income	(2 150 – 900)	2	1 250
Other expenses		3	(5 408)
Profit before taxation			2 542
Income tax expense			(741)
Profit for the period			1 801
Other comprehensive income			-
Revaluation of land			900
Total comprehensive income			2 701

SKY LIMITED
EXTRACT FROM THE STATEMENT OF CHANGES IN EQUITY (DRAFT)
FOR THE YEAR ENDED 30 SEPTEMBER 20X9

	Note	Retained earnings C000s	NDR C000s
Balance at 30/9/20X8		10 110	-
Total comprehensive income		1 801	900
Ordinary dividend - paid	5	(240)	
Balance at 30/9/20X9		11 671	900

SKY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 20X9

1. Accounting policies

1.1 Statement of compliance
These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

1.1.1 Accounting convention
These financial statements have been prepared on the basis of historical cost convention except for certain assets that are measured at fair value as specified in their respective notes.

1.2 Revenue
Revenue is measured at the fair value of the consideration received or receivable net of VAT. Revenue consists of sales of goods, rendering of services, royalties, dividends and interest income.

2. Other income

	C000s
Income from subsidiary	450
- Dividends	260
- Interest	190

Income from other investments	
- Dividends from listed companies	800
	1 250

Solution 3.12 continued …

3. Other expenses classified by nature include the following amounts.

		C'000
Auditor's remuneration		438
- audit fee		88
- consulting fees		350
Technical fees	*(200 - 80)*	120
Depreciation		620
Staff costs		(x + 80)
Loss on inventory written down		1 800
Loss arising from flood damage		300

c)

The following information is still required for proper disclosure:

- If the function method is to be used for the statement of comprehensive income, then the following information would also be required:
  - Cost of sales
  - Details as to how to allocate the other expenses of C5 408 000 to the other functions: distribution, administration and other;
  - Any other expense included in 'general expenses' that may require separate disclosure in terms of IAS 1, other IAS's, the Companies Act and materiality.
- If the nature method is to be used for the statement of comprehensive income, then the following information would also be required:
  - Details of the movement in inventory: increase or decrease in the opening and closing balances of inventory and purchases thereof etcetera
  - Any other expense included in 'general expenses' that may require separate disclosure in terms of IAS 1, other IAS's, the Companies Act and materiality.

Solution 3.13

a)

MUSTARD SEED LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 28 FEBRUARY 20X5

		Note	C
Revenue from sales		2	8 422 500
Cost of goods sold	(6 053 500 + 23 000)		(6 076 500)
Gross profit			2 346 000
Other income	(140 200 + 62 800 + 67 000)	2	270 000
Distribution costs			(505 300)
Administration expenses			(436 000)
Other expenses			(48 000)
Finance cost			(12 000)
Profit before tax		3	1 614 700
Income tax expense		4	(471 850)
Profit for the period			1 142 850
Other comprehensive income			-
Total comprehensive income			1 142 850

b)

MUSTARD SEED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 20X5

C

1. Accounting policies

Statement of compliance
These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

Basis of preparation
The financial statements have been prepared in the historical cost basis. These policies are consistent in all material respects with these applied in the previous years.

2. Revenue

Sales of goods	8 422 500
Rendering of services	140 200
Dividends received	62 800
	8 625 500

Solution 3.13 continued …

MUSTARD SEED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 20X5 (CONTINUED)

			C
3.	**Profit before tax**		
	The profit before tax has been computed after taking into account the following:		
	Auditors remuneration		
	Fee for audit		25 000
	Other services		4 000
	Depreciation of fixtures, fittings and equipment	(82 000 + 68 000)	150 000
	Employee benefits expense	(320 000 + 312 000)	632 000
	Profit on disposal of fixtures, fittings and equipment		67 000
	Write down of inventory to net realisable value	(75 000 – 52 000)	23 000

4.	**Income tax expense**		
	Normal tax		471 850
	Current		471 850
	Deferred		-

Tax rate reconciliation	**%**	
Tax on profit / applicable rate	30,00	484 410
Dividends received	(0.78)	(12 560)
Income tax expense / effective rate	29.22	471 850

5. Dividends declared

Dividends amounting to C20 000 (C0.02 per share) were declared by the directors after the financial reporting date and before the financial statements were authorised for issue.

Solution 3.15 continued …

c) Presentation of borrowings

- An entity shall classify a liability as current when:
  - it expects to settle the liability in its normal operating cycle;
  - it holds the liability primarily for the purpose of trading;
  - the liability is due to be settled within twelve months after the reporting period; or
  - the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

  All other liabilities shall be classified as non-current. Based on this definition, it appears that the borrowings should be classified as a current liability at 28 February 20X5 as the amount of C100 000 is payable on 30 May 20X5.
- However, if an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the financial reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. In this situation, Mustard Seed Limited has entered into an agreement to refinance the loan until 30 May 20X6 under the existing loan facility.
- The C100 000 should therefore be classified as a non-current liability on the statement of financial position at 28 February 20X5.

Workings

Tax computation	
Profit before tax	1 614 700
Less: Dividends received (to be taxed @ 10%)	(62 800)
	1 551 900
Corporate tax rate	
	30%
Tax	465 570
Add: tax on dividend income @ 10% (62 800 * 10%)	6280
	471 850